

**REPORT OF THE AUDIT OF THE
CARROLL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

March 28, 2003



EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Tomlinson, Carroll County Judge/Executive

Honorable Charles Maiden, Jr., Carroll County Sheriff

Members of the Carroll County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Carroll County Sheriff's Settlement - 2002 Taxes as of March 28, 2003.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Carroll County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CARROLL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

March 28, 2003

Kapp & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Carroll County Sheriff as of March 28, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,015,892 for the districts for 2002 taxes, retaining commissions of \$176,453 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,782,544 to the districts for 2002 Taxes. Taxes of \$392 are due to the districts from the Sheriff.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

On November 2, 2002, \$259,604 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

To the People of Kentucky

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Independent Auditor's Report

We have audited the Carroll County Sheriff's Settlement - 2002 Taxes as of March 28, 2003. This tax settlement is the responsibility of the Carroll County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carroll County Sheriff's taxes charged, credited, and paid as of March 28, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Tomlinson, Carroll County Judge/Executive

Honorable Charles Maiden, Jr., Carroll County Sheriff

Members of the Carroll County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
July 31, 2003

CARROLL COUNTY
CHARLES MAIDEN, JR., COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

March 28, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 359,375	\$ 414,478	\$ 1,600,853	\$ 521,022
Tangible Personal Property	166,915	193,448	482,199	697,387
Intangible Personal Property				31,232
Fire Protection	458			
Franchise Corporation	136,907	135,079	473,370	
Limestone, Sand, and Mineral Reserves	1,706	1,396	7,599	2,326
Penalties	1,949	2,231	8,601	2,694
Adjusted to Sheriff's Receipt	(1,441)	(1,180)	(6,432)	(1,966)
Gross Chargeable to Sheriff	<u>\$ 665,869</u>	<u>\$ 745,452</u>	<u>\$ 2,566,190</u>	<u>\$ 1,252,695</u>
<u>Credits</u>				
Exonerations	\$ 479	\$ 611	\$ 2,109	\$ 679
Discounts	8,776	10,139	33,893	22,446
Delinquents:				
Real Estate	5,657	7,378	25,192	7,712
Tangible Personal Property	214	139	619	269
Uncollected Franchise	<u>17,599</u>	<u>12,774</u>	<u>57,629</u>	
Total Credits	<u>\$ 32,725</u>	<u>\$ 31,041</u>	<u>\$ 119,442</u>	<u>\$ 31,106</u>
Taxes Collected	\$ 633,144	\$ 714,411	\$ 2,446,748	\$ 1,221,589
Less: Commissions *	<u>27,196</u>	<u>23,650</u>	<u>73,402</u>	<u>52,205</u>
Taxes Due	\$ 605,948	\$ 690,761	\$ 2,373,346	\$ 1,169,384
Taxes Paid	594,627	678,917	2,340,380	1,168,620
Refunds (Current and Prior Year)	<u>11,298</u>	<u>11,726</u>	<u>32,741</u>	<u>738</u>
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 23</u>	<u>\$ 118</u>	<u>\$ 225</u>	<u>\$ 26</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

CARROLL COUNTY
CHARLES MAIDEN, JR., COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
March 28, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,352,616
3% on	\$	2,446,748
1% on	\$	206,528

** Special Taxing Districts:

Library District	\$	12
Health District		15
Ghent Fire District		<u>91</u>
Due Districts	\$	<u><u>118</u></u>

The accompanying notes are an integral part of this financial statement.

CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS

March 28, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 2, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$259,604 of public funds uninsured and unsecured.

CARROLL CONTY
NOTES TO FINANCIAL STATEMENTS
March 28, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2002 through March 28, 2003.

Note 4. Interest Income

The Carroll County Sheriff earned \$2,885 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute.

Note 5. Sheriff's 10% Add-On Fee

The Carroll County Sheriff collected \$11,610 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Carroll County Sheriff collected \$162 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

CARROLL COUNTY
CHARLES MAIDEN, JR., COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

No response.

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 2, 2002, \$259,604 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

No response.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Carroll County Sheriff's Settlement - 2002 Taxes as of March 28, 2003, and have issued our report thereon dated July 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carroll County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carroll County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
July 31, 2003

